



COLORADO ECONOMIC OUTLOOK

**Recovery is now underway.
Will it continue?**

Presented to

Colorado Blue Ribbon Panel on Housing

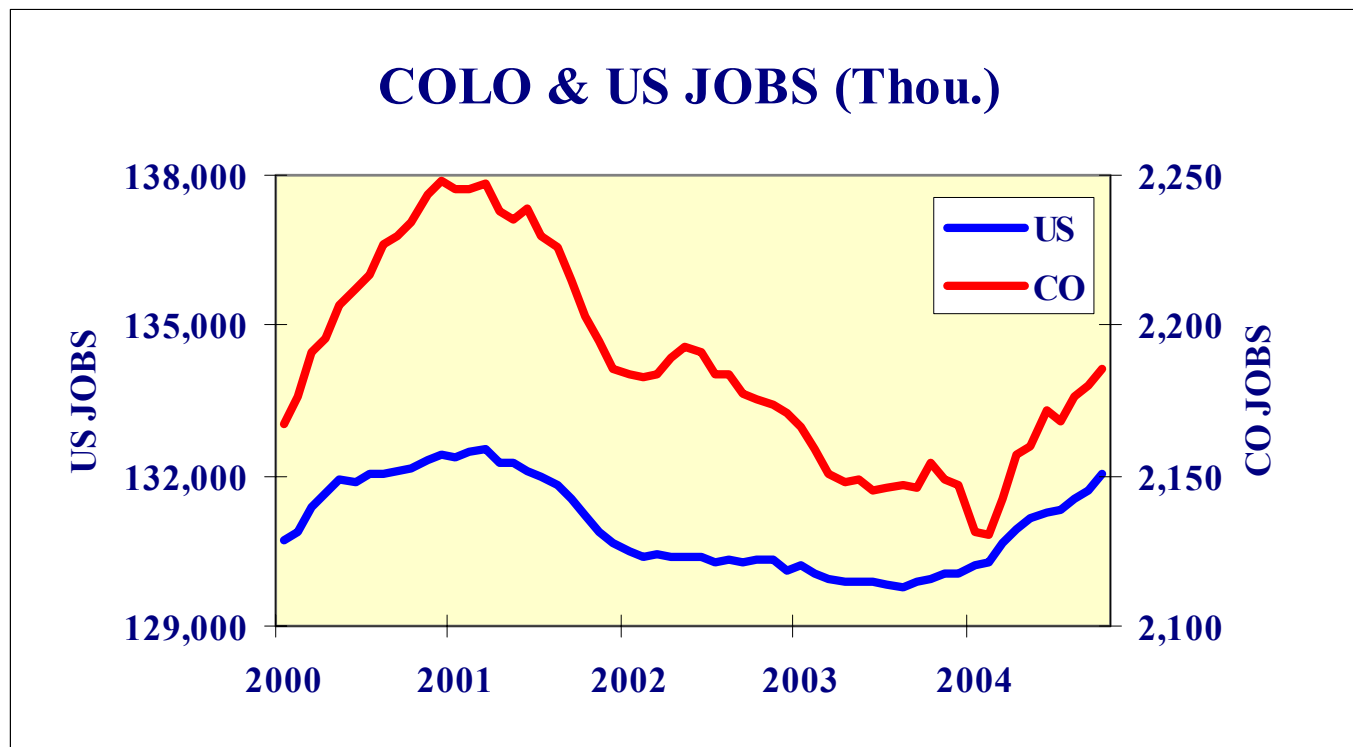
by

Wilson D. Kendall, President

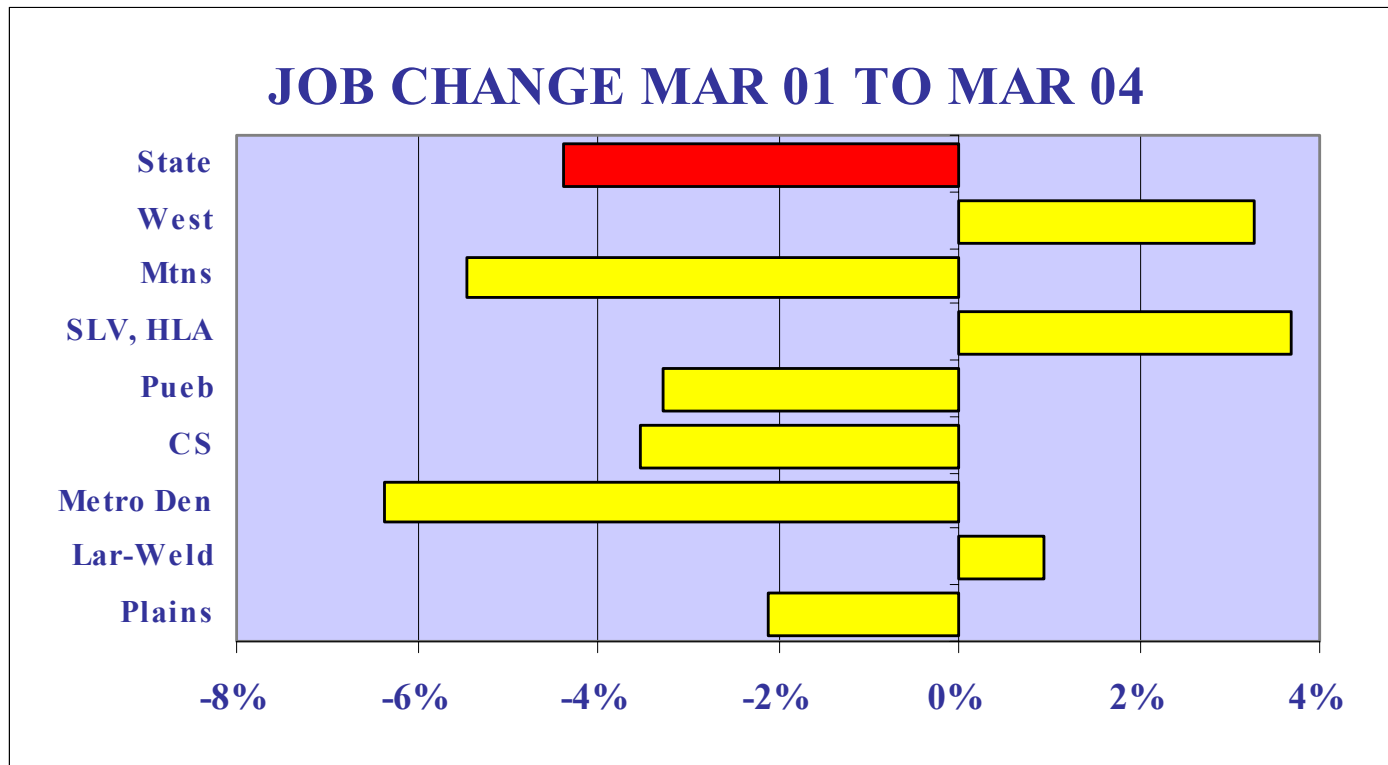
Center for Business and Economic Forecasting, Inc.

December 7, 2004

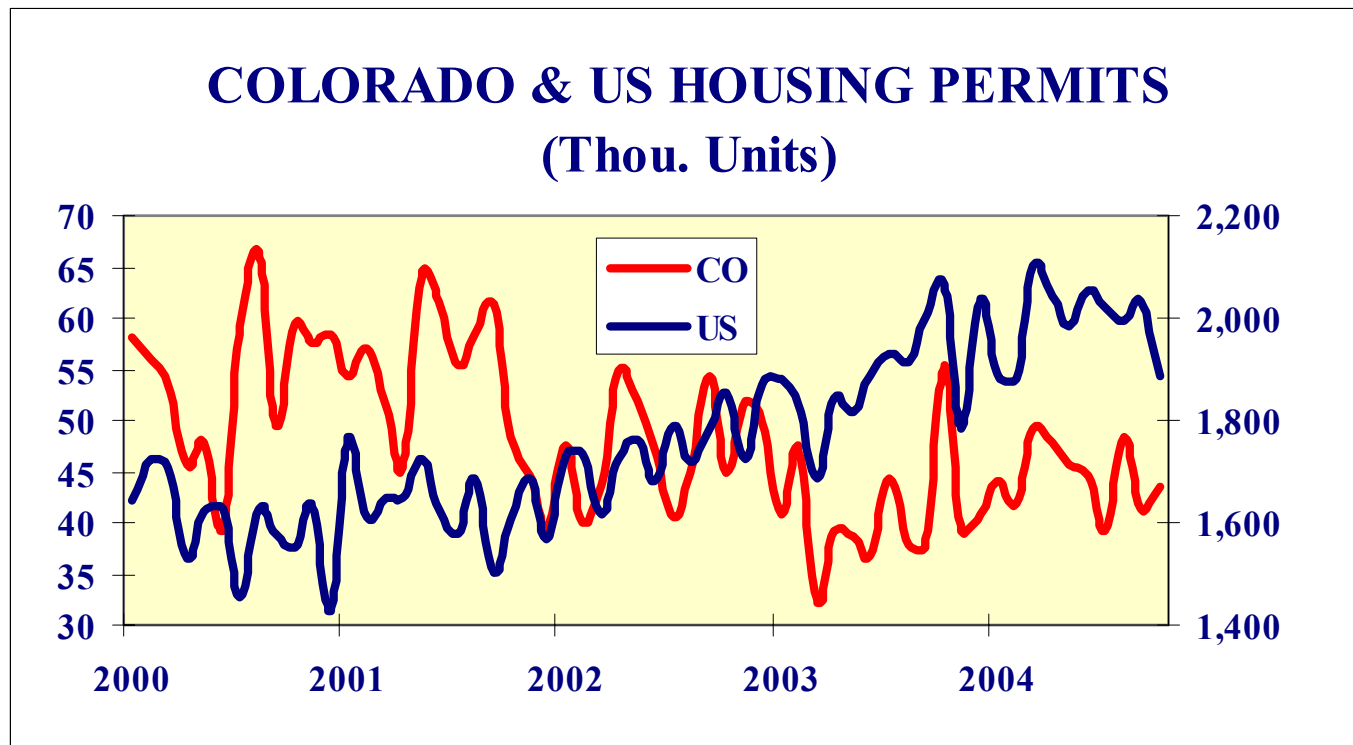
Colorado Job Growth has picked up but lags nation



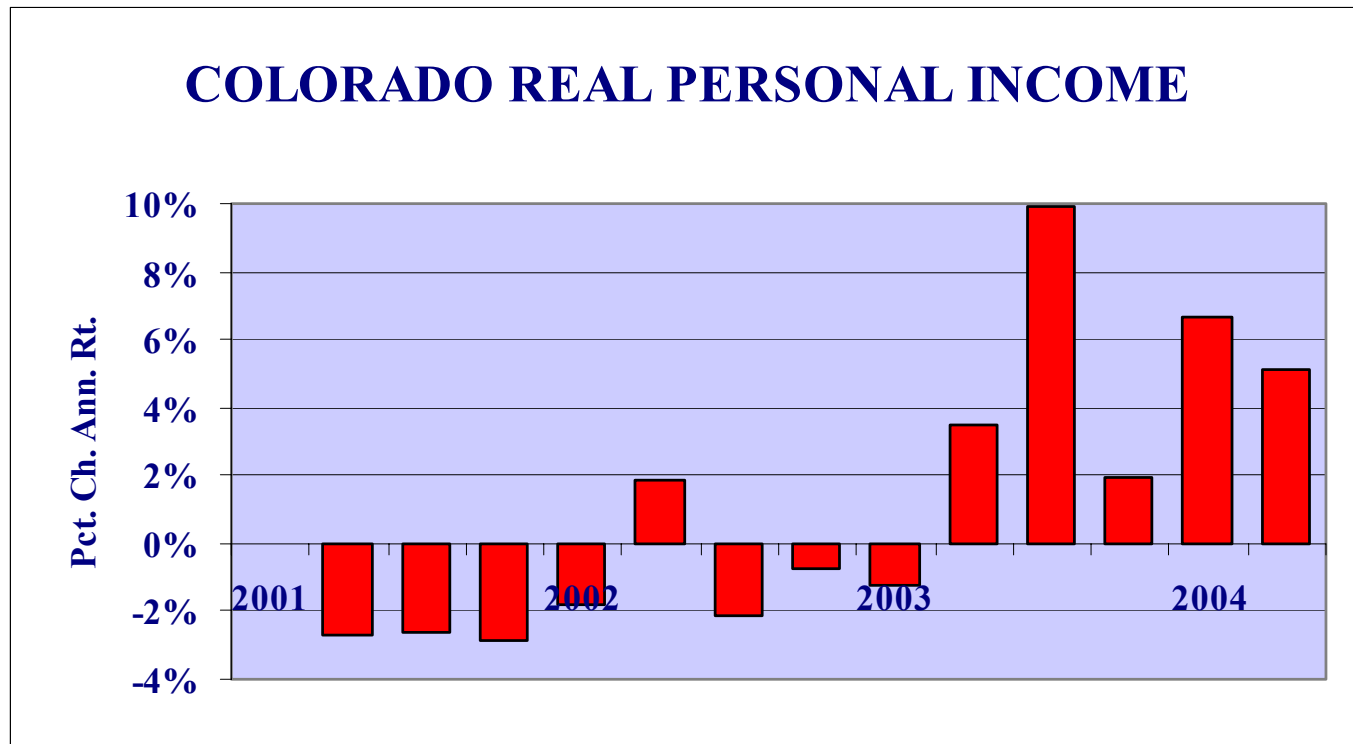
Economic performance varied in Colorado's regions



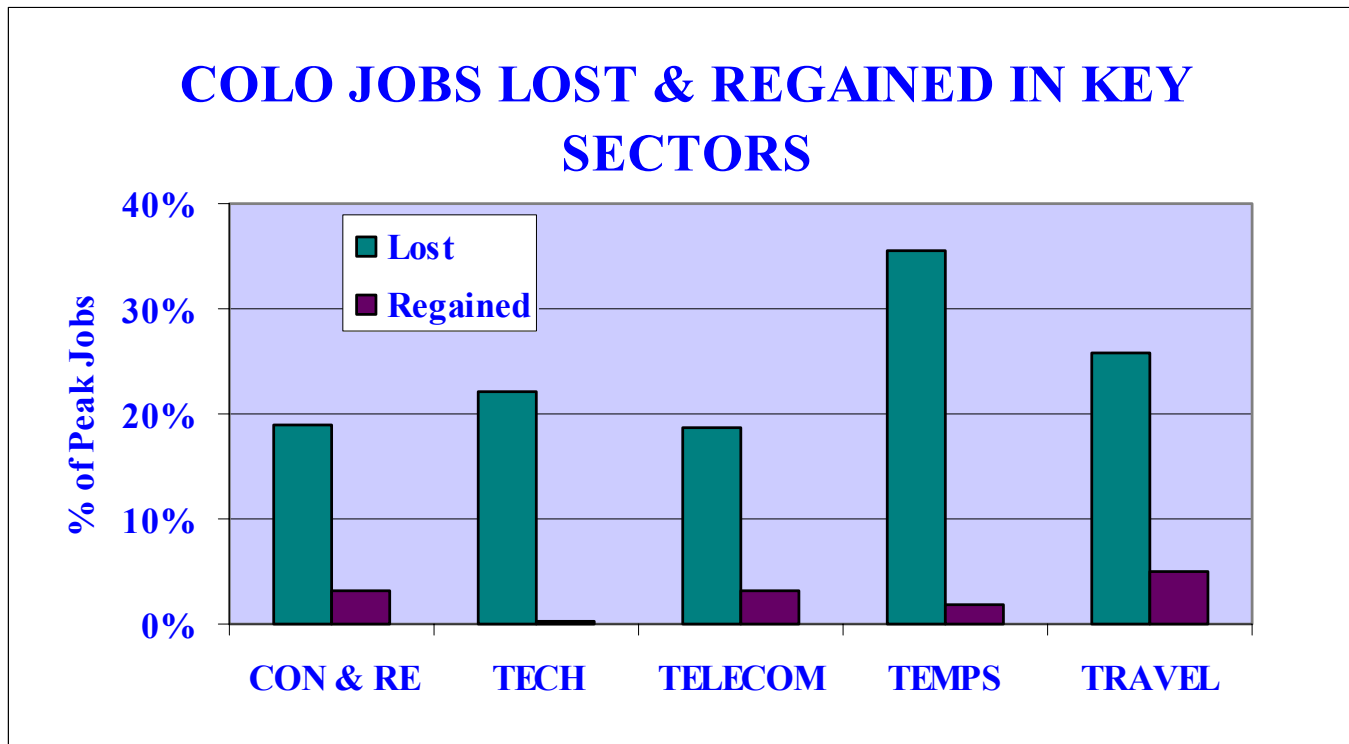
Colorado homebuilding dropped in 2002 & early '03 by recovered in '04



Real income has begun to recover



Key sectors have strengthened, but are still well below peaks



Other economic measures also show rebound

- **RETAIL SALES UP 4.5%
FOLLOWING DECLINE IN '03**
- **UNEMPLOYMENT 5% IN OCT.,
DOWN FROM 6% IN '03.**
- **GAIN IN AVERAGE EARNINGS TOPS
'03 OR '02.**
- **DENVER OFFICE ABSORPTION
STRONGER IN 1ST HALF OF '04**

Why has Colorado economy been so sluggish since 2000?

- **DECLINES IN TELECOMMUNICATIONS AND TECHNOLOGY SECTORS**
- **WEAKNESS IN TRAVEL AND TOURISM**
- **END OF CONSTRUCTION BOOM**
- **SLOW RECOVERY FROM RECESSION FOR NATION**
- **HIGH RELATIVE COSTS**

**Continued growth in national economy is
critical to Colo. Recovery.**

US Outlook Summary

- **REAL GROWTH WILL SLOW MODERATELY**
- **JOB GAINS TO CONTINUE WHILE
UNEMPLOYMENT WILL FALL**
- **CONSUMER SPENDING TO SLOW**
- **BUSINESS INVESTMENT WILL REMAIN STRONG**
- **HOME BUILDING WILL DECLINE**
- **INFLATION WILL ACCELERATE SLIGHTLY**
- **INTEREST RATES WILL INCREASE SOMEWHAT**
- **FEDERAL BUDGET DEFICIT TO SHRINK A
LITTLE**

Risks to US Outlook

- **OIL & ENERGY PRICES**
- **DEBT-HOUSEHOLD & GOVERNMENT**
- **WEAKENING CONSUMER CONFIDENCE**
- **RUN-UP IN INTEREST RATES**
- **HOUSING BUBBLE**
- **FLIGHT FROM DOLLAR**
- **TERRORIST ATTACKS OR
DETERIORATING SECURITY**

Colorado outlook: Are the good times over?

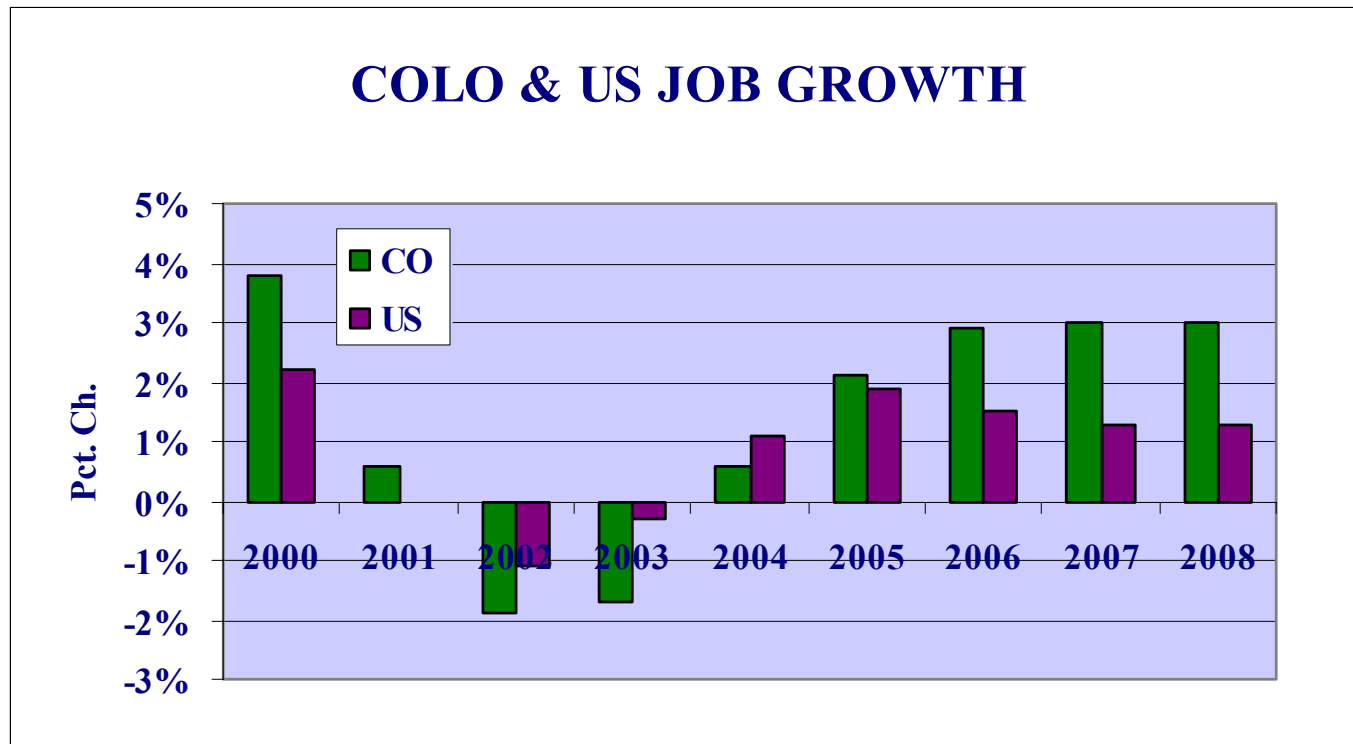
MORE TOUGH TIMES TO COME !

- **BUSINESS COSTS**
- **HOUSING COSTS**
- **RESOURCE
AVAILABILITY**
- **FINANCING
TRANSPORTATION &
EDUCATION**

GOOD OLD DAYS RETURN !

- **FAVORABLE
INDUSTRY MIX**
- **ATTRACTION TO
AGING BABY-
BOOMERS**
- **SKILLED LABOR
FORCE-FOR NOW**
- **LIFE STYLE**

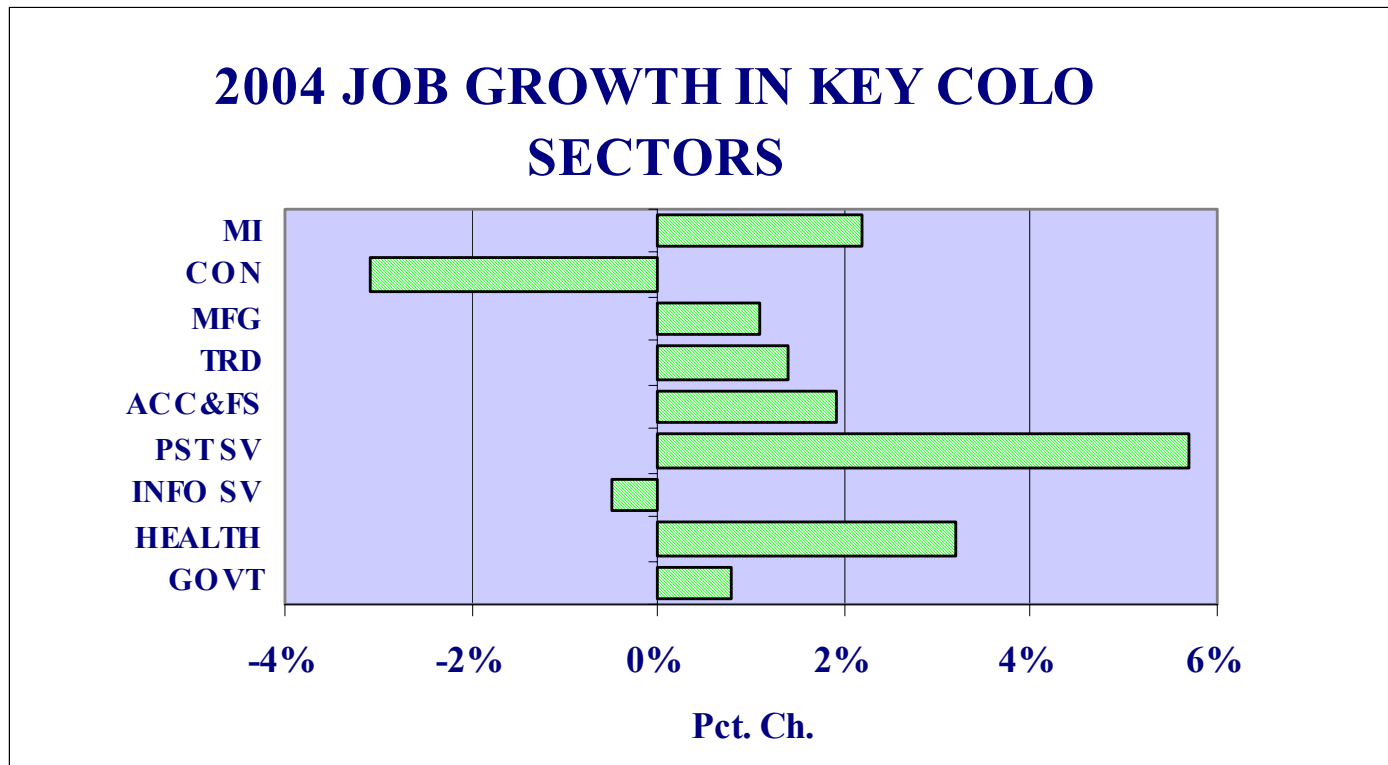
Colorado job growth to accelerate after this year



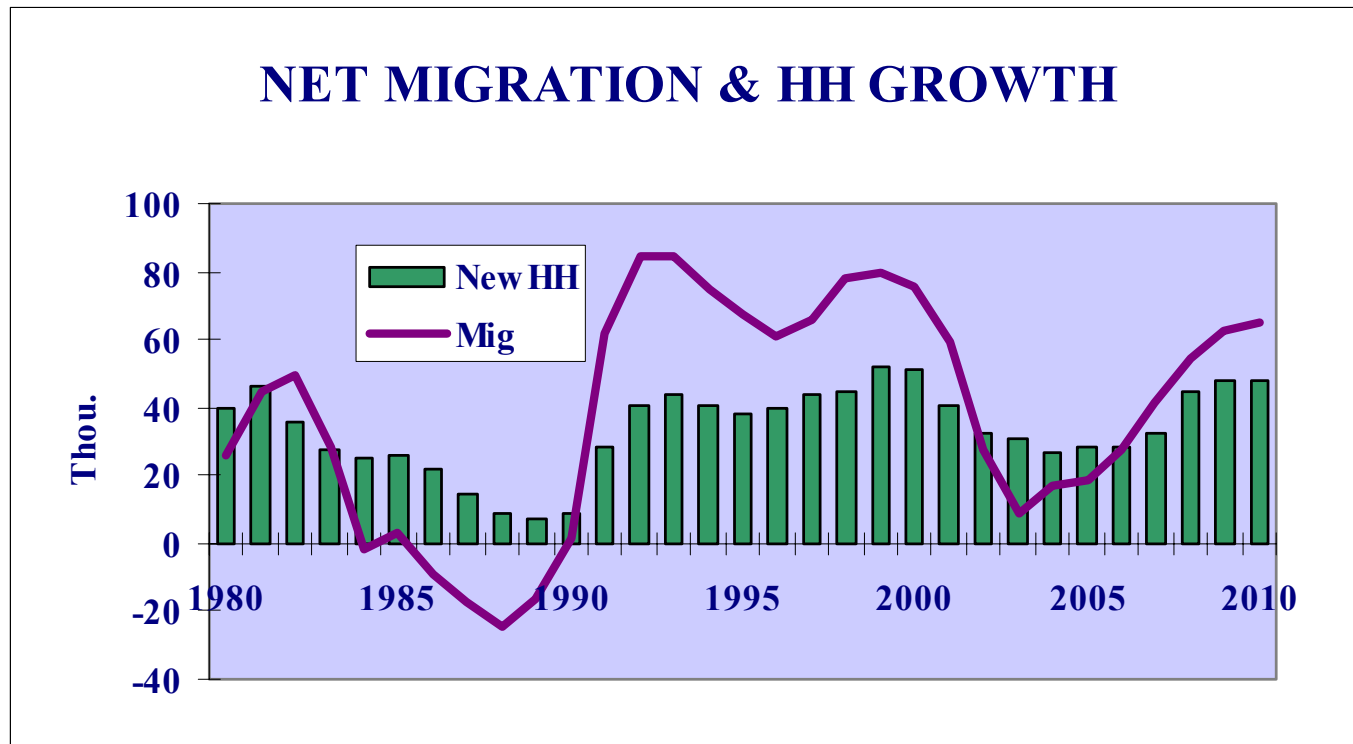
State income and sales gains underway and will continue.



Most sectors will see job gains in 2005

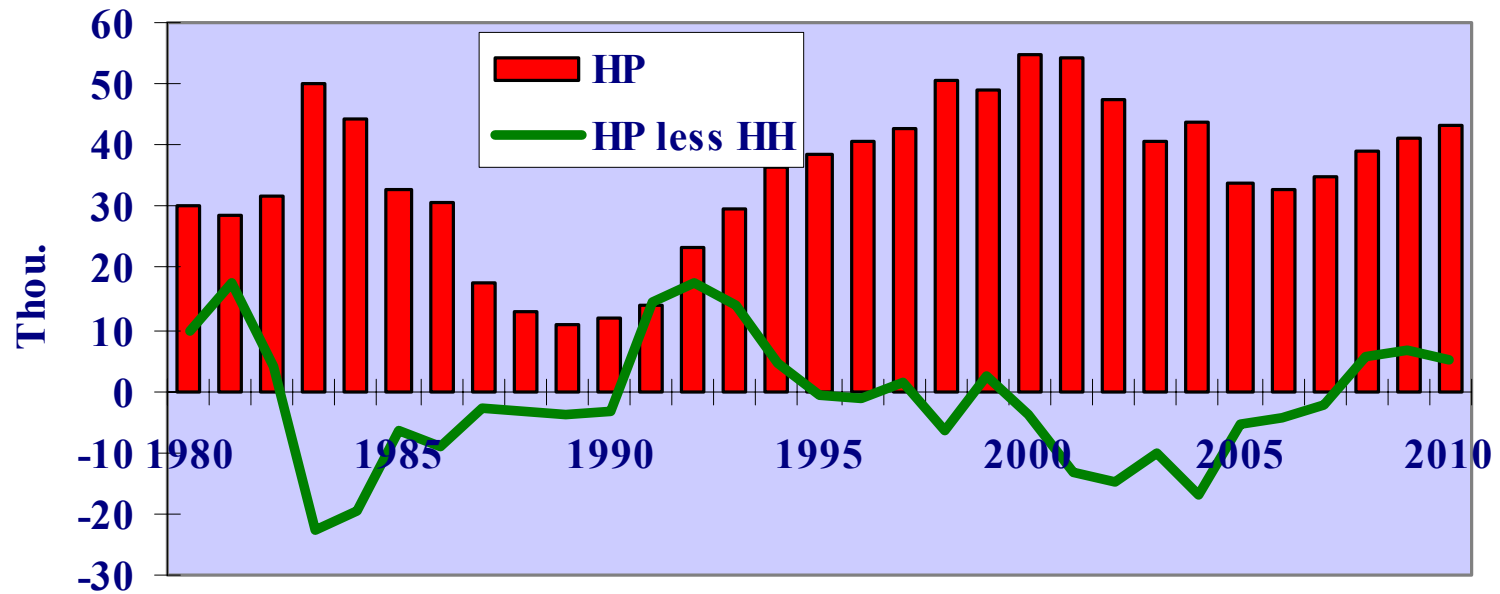


Demand for new homes driven by household growth which depends on migration



When homebuilding exceeds household growth, building eventually declines

"EXCESS DEMAND" & HOME BUILDING



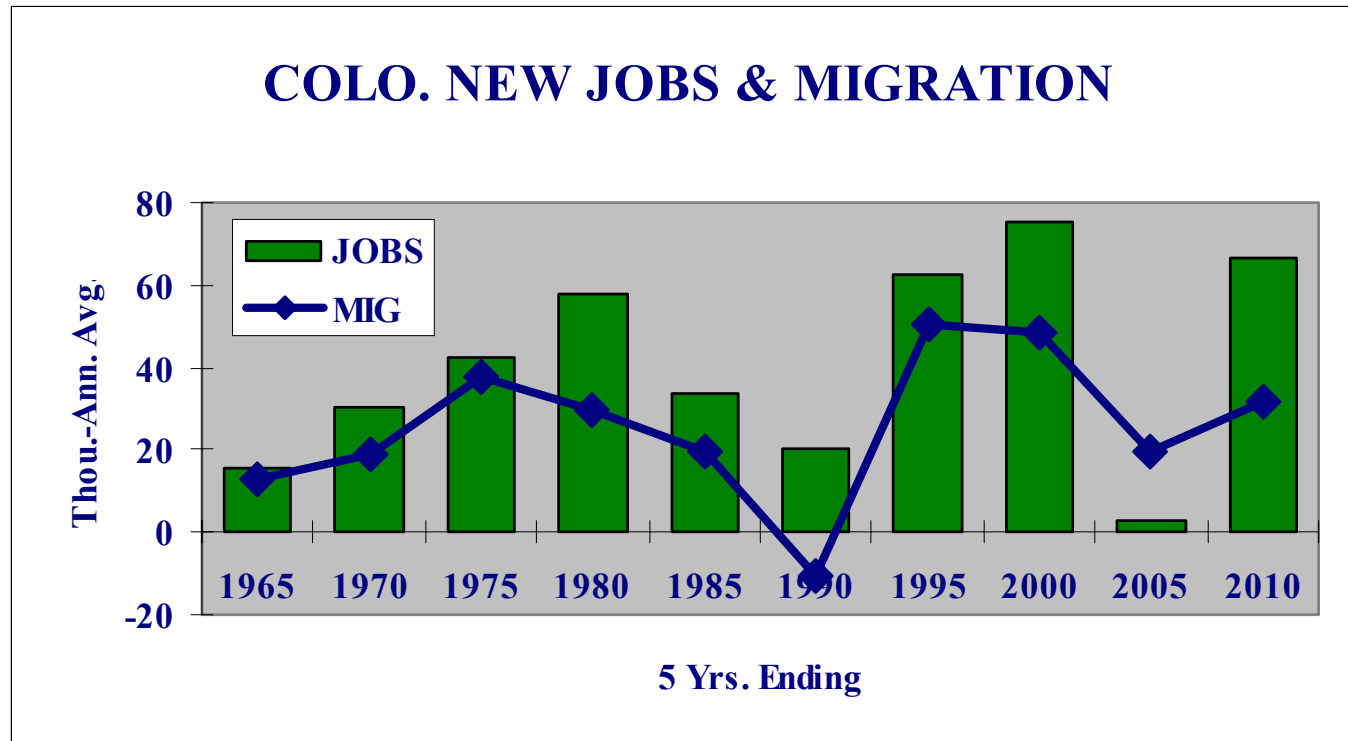
Colorado Outlook Summary-I

- **US ECONOMY'S GAINS BEGINNING TO SHOW UP IN STATE**
- **HOUSING TO WEAKEN; APARTMENT MARKET WILL REMAIN SOFT**
- **OFFICE RECOVERY AWAITS STRONGER JOB GROWTH**
- **DEFENSE SPENDING A SOURCE OF STRENGTH**
- **HIGH ENERGY PRICES WILL HELP OIL, GAS AND COAL INDUSTRIES BUT HURT TRAVEL & TOURISM**
- **STATE & LOCAL GOVERNMENT BUDGET PICTURES BEGINNING TO BRIGHTEN**

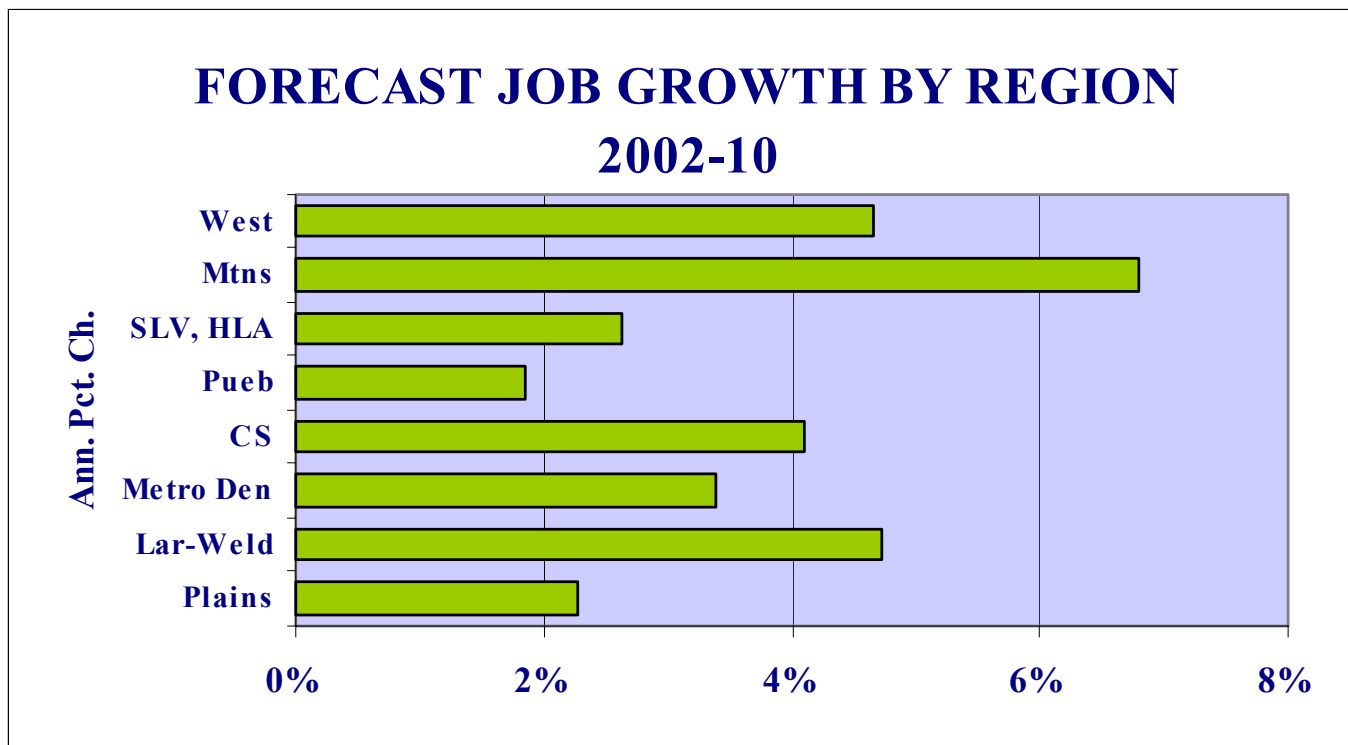
Colorado Outlook Summary-II

- **TECH INDUSTRIES SHOWING SIGNS OF LIFE**
- **TELECOM RECOVERY STILL DISTANT**
- **MIGRATION REMAINS LOW UNTIL JOB GROWTH STRENGTHENS**
- **POSITIVE JOB GROWTH IN 2004 WITH STRONGER GAINS IN LATER YEARS**
- **UNEMPLOYMENT TO GRADUALLY DECLINE**
- **RETAIL SPENDING TO PICK UP AS INCOME RISES AND LABOR MARKET IMPROVES**
- **STATE GROWTH WILL REMAIN WELL SHORT OF THAT IN 1990S**

Job growth is slower than 90s but migration will rebound



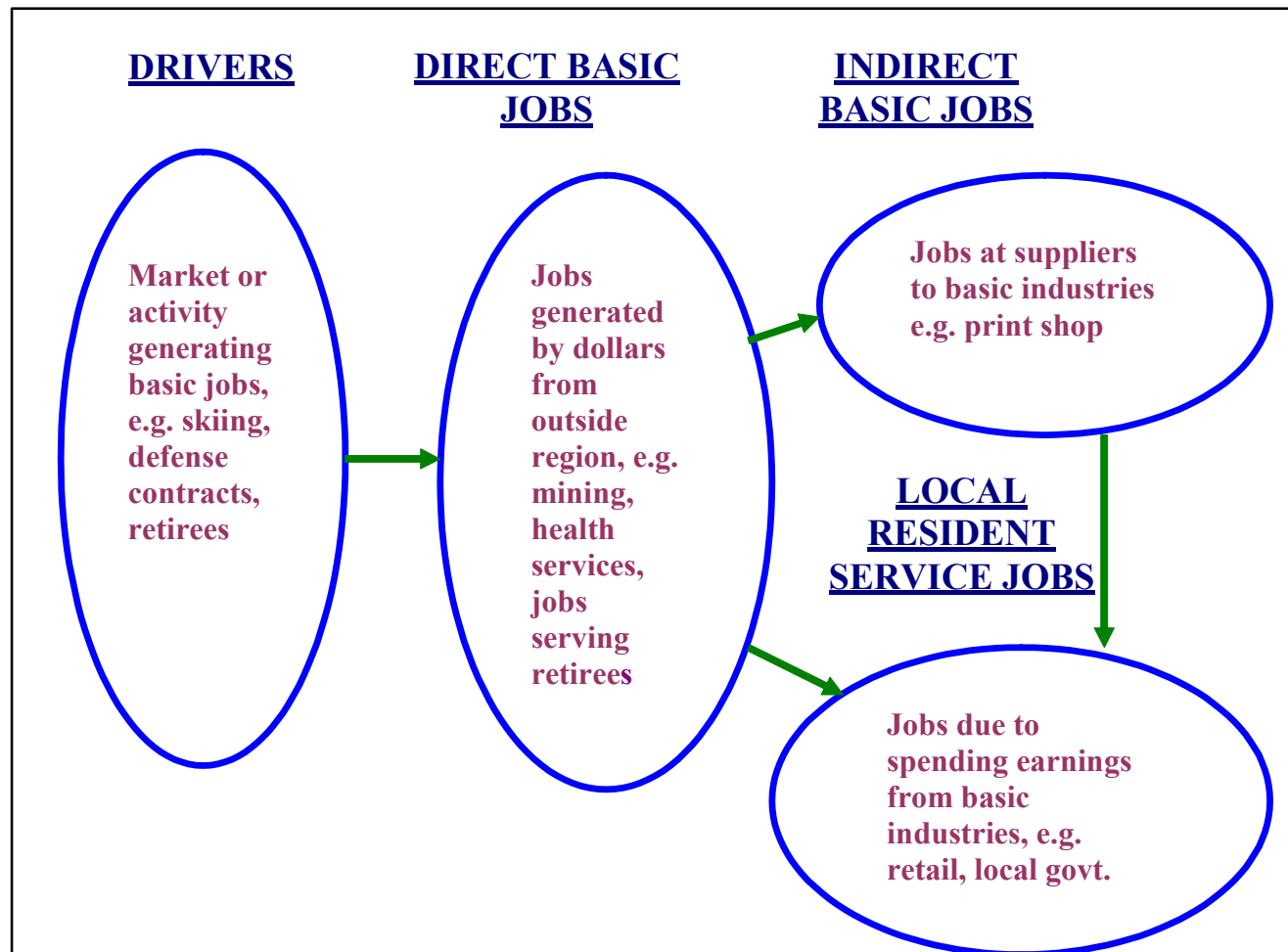
Fastest growth through rest of decade in mountains, Larimer-Weld and Western Slope



How a region grows

**Economic base analysis in
Colorado's regions.**

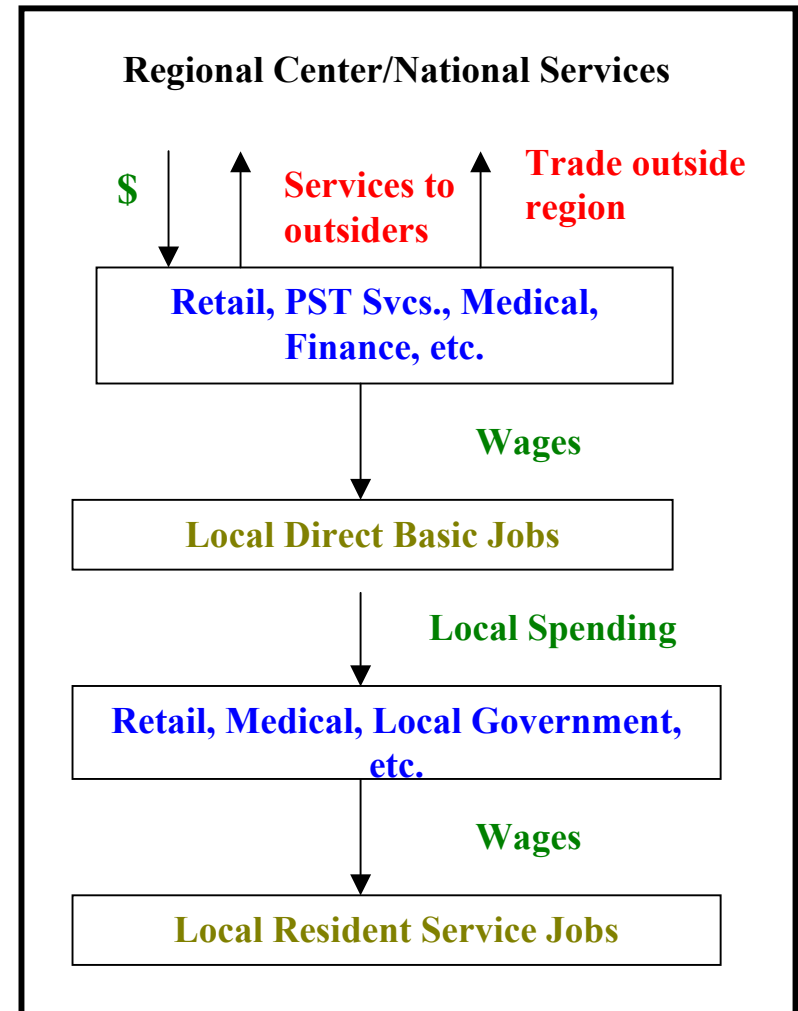
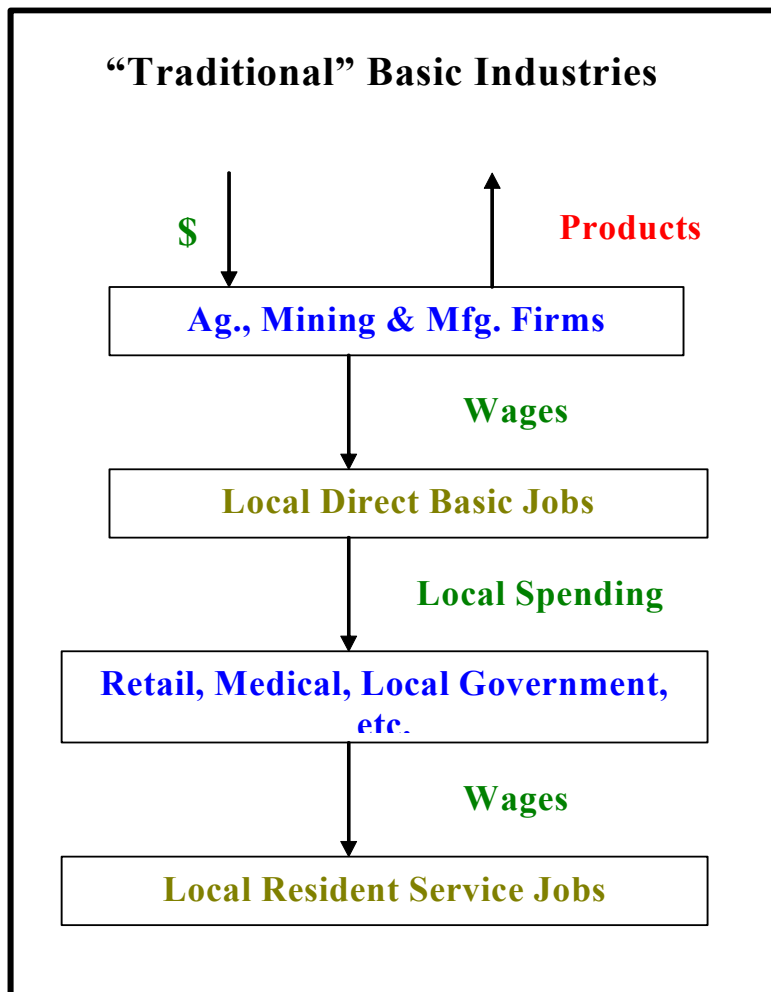
Outside dollars fuel regional economies. How drivers generate jobs.



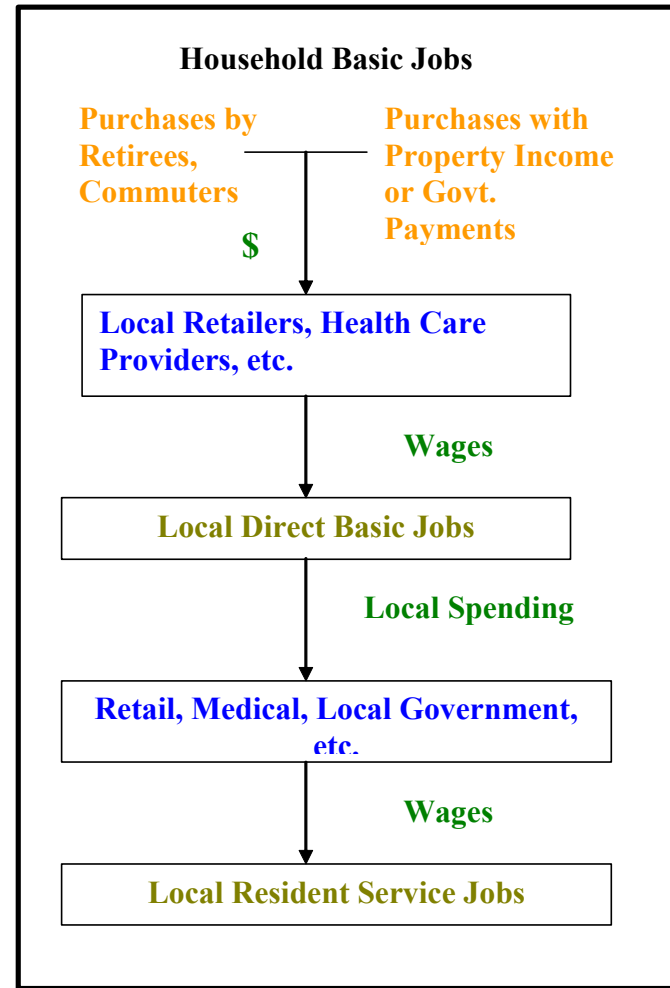
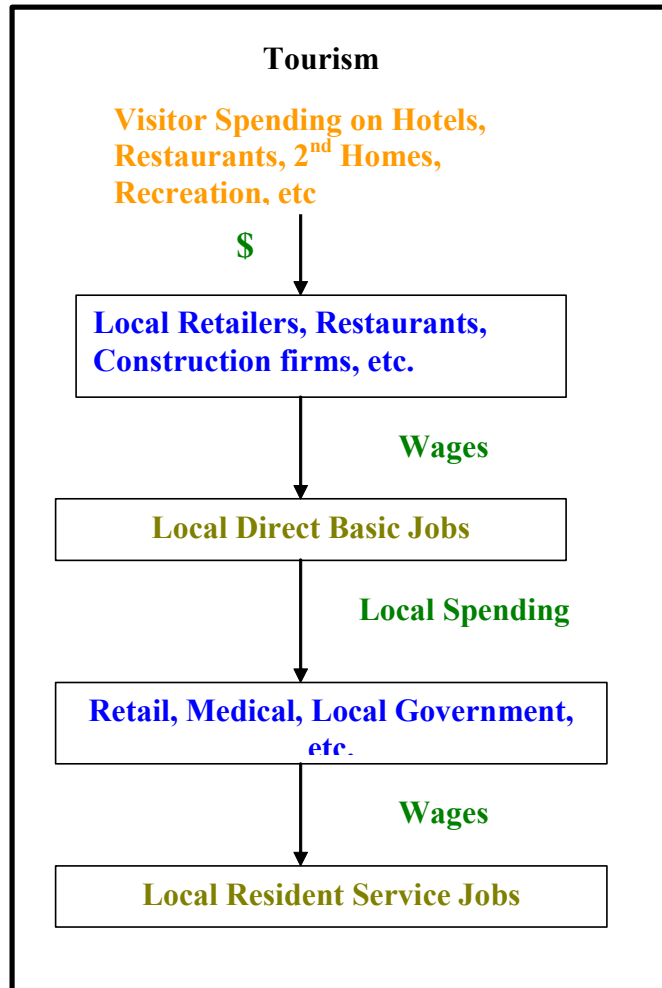
What is a direct basic job?

- **Generated by dollars from outside & generate additional jobs and income**
- **Traditional basic jobs-mfg., mining, ag.**
- **Regional center/national service**
- **Tourism jobs**
- **Retiree generated jobs**
- **Other household basic jobs**

Traditional base industries & Regional Center/National Services



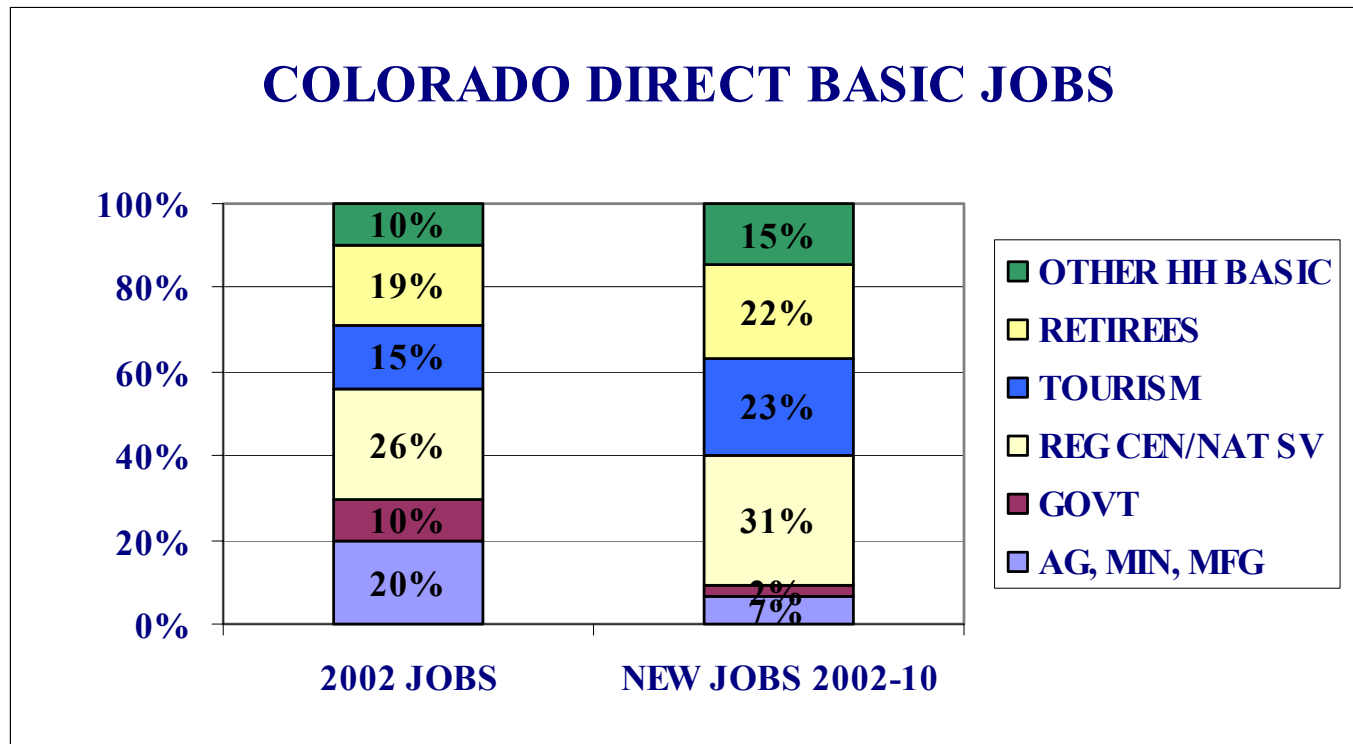
Basic jobs from tourism and household expenditures



Basic jobs in housing

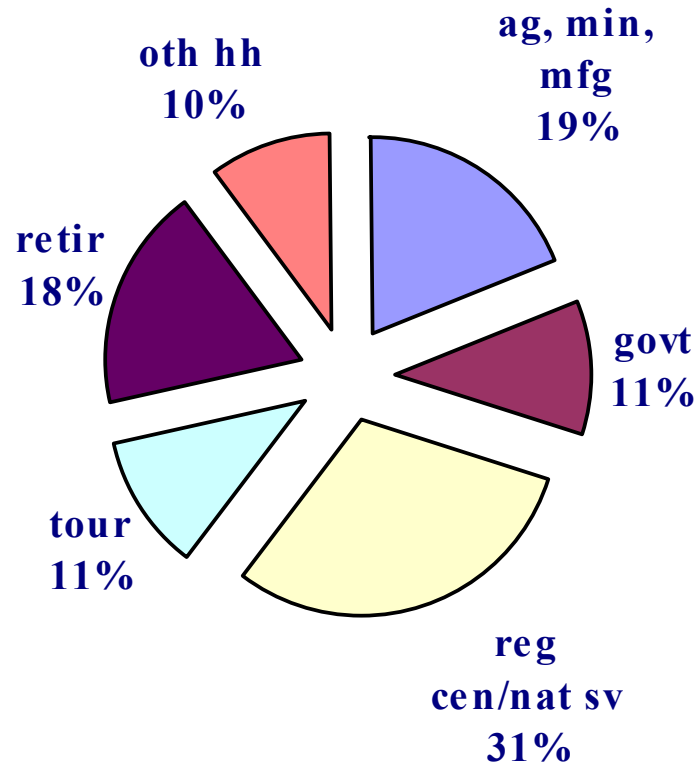
- **Residences for Retirees**
- **Second Home Construction & Sales**
- **Repair and Maintenance Services for Second Homes**
- **Residences for Commuters**
- **Residential Expenditures of Property Income, Capital Gains, Govt. Payments, etc**

Services jobs and retirees will make largest contribution to state growth

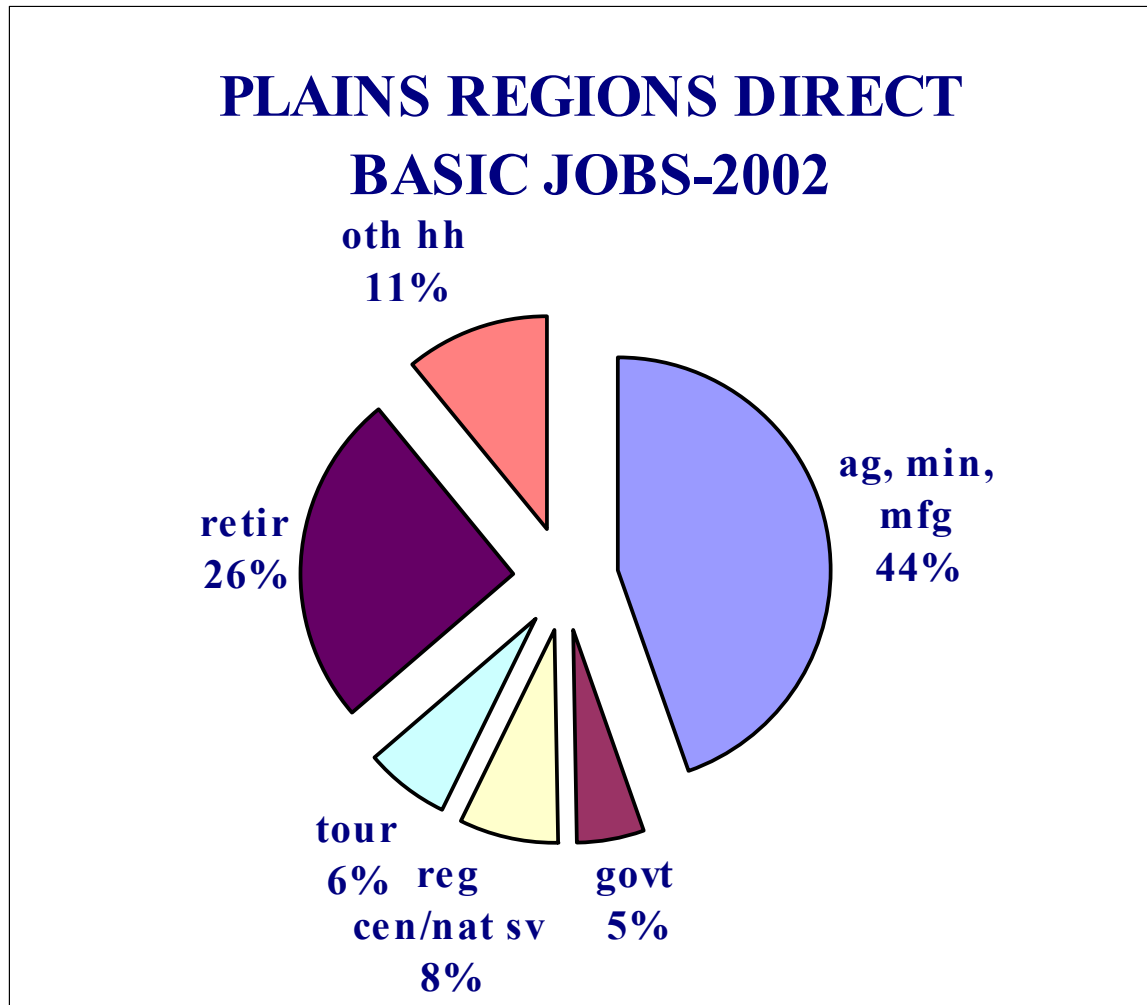


In Front Range, regional center/national service accounts for most basic jobs

FRONT RANGE DIRECT BASIC JOBS-2002



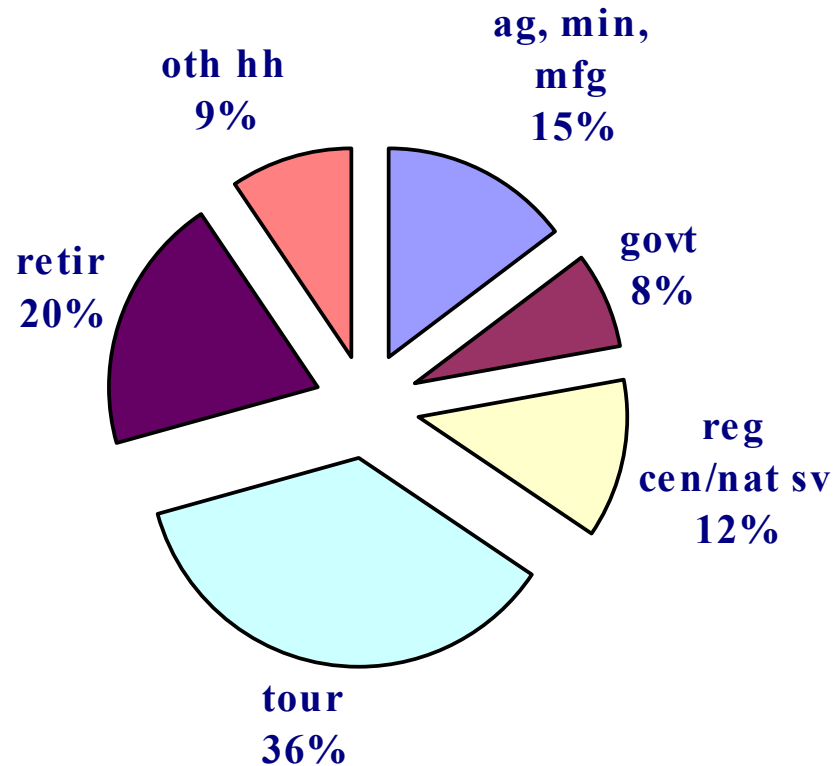
Agriculture is dominant industry in plains with retirees also important



Mountain and western slope economies driven by tourism & retirees

MTNS./ WEST SLOPE DIRECT

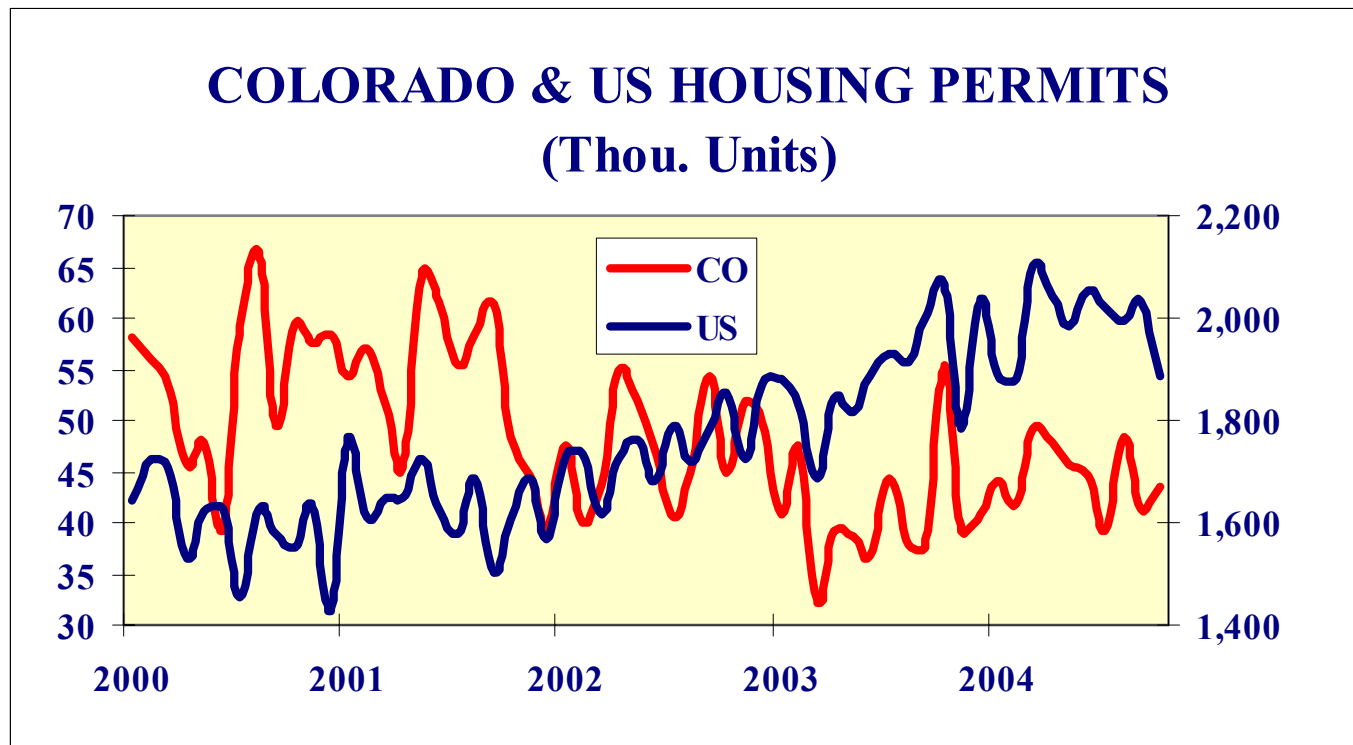
BASIC JOBS-2002



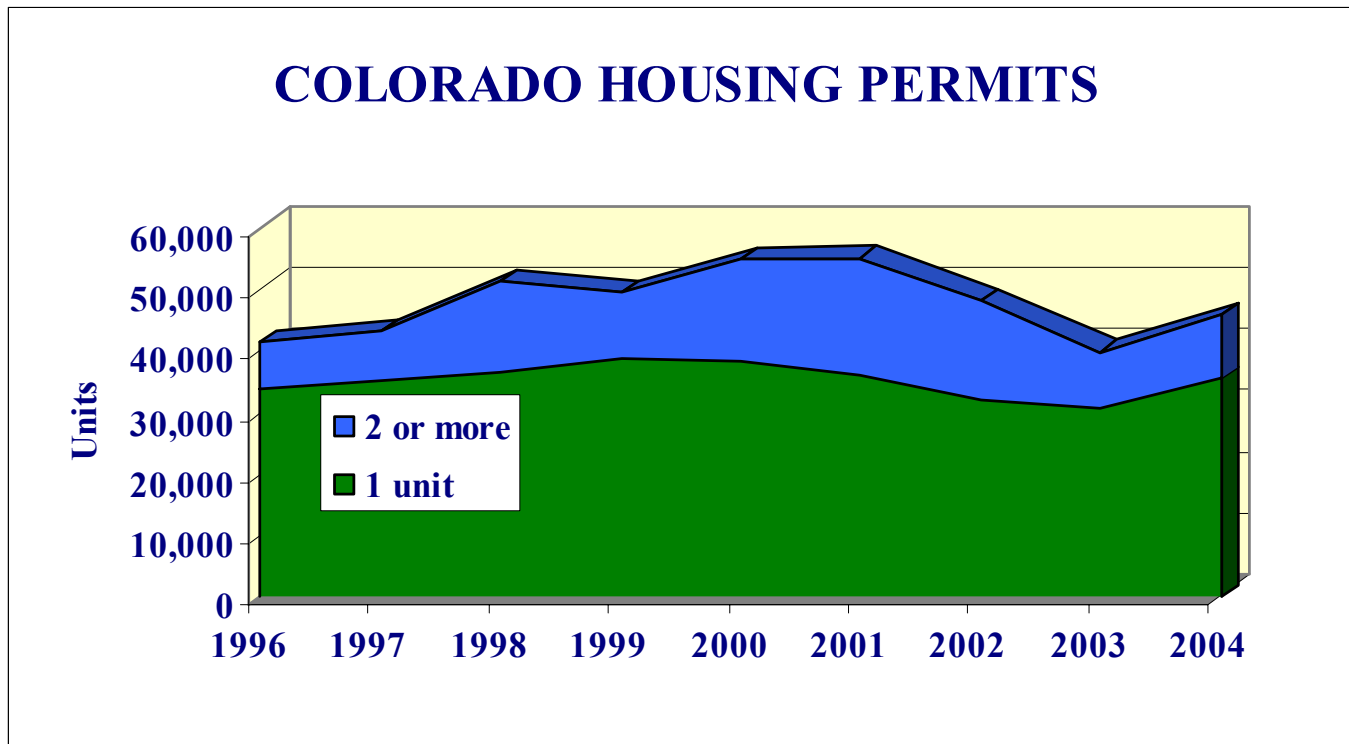
COLORADO HOUSING

Outlook & Affordability Issues

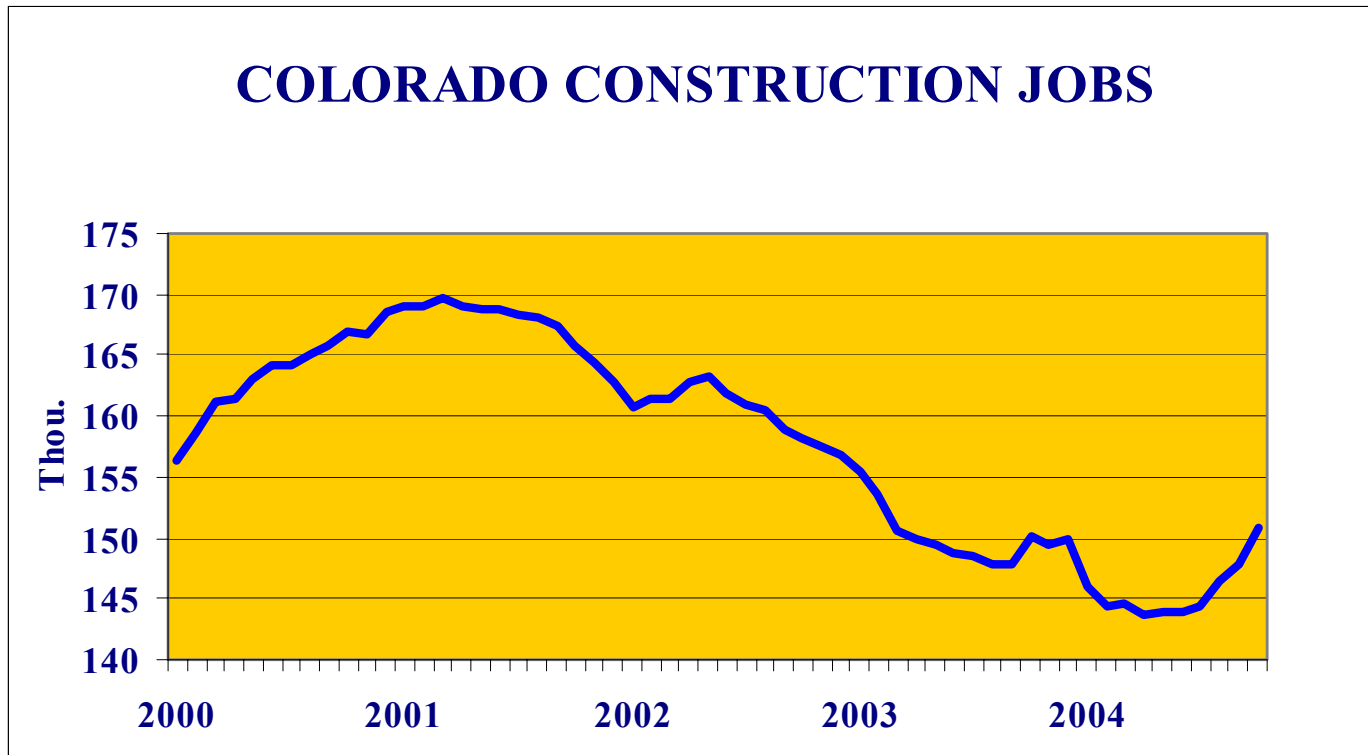
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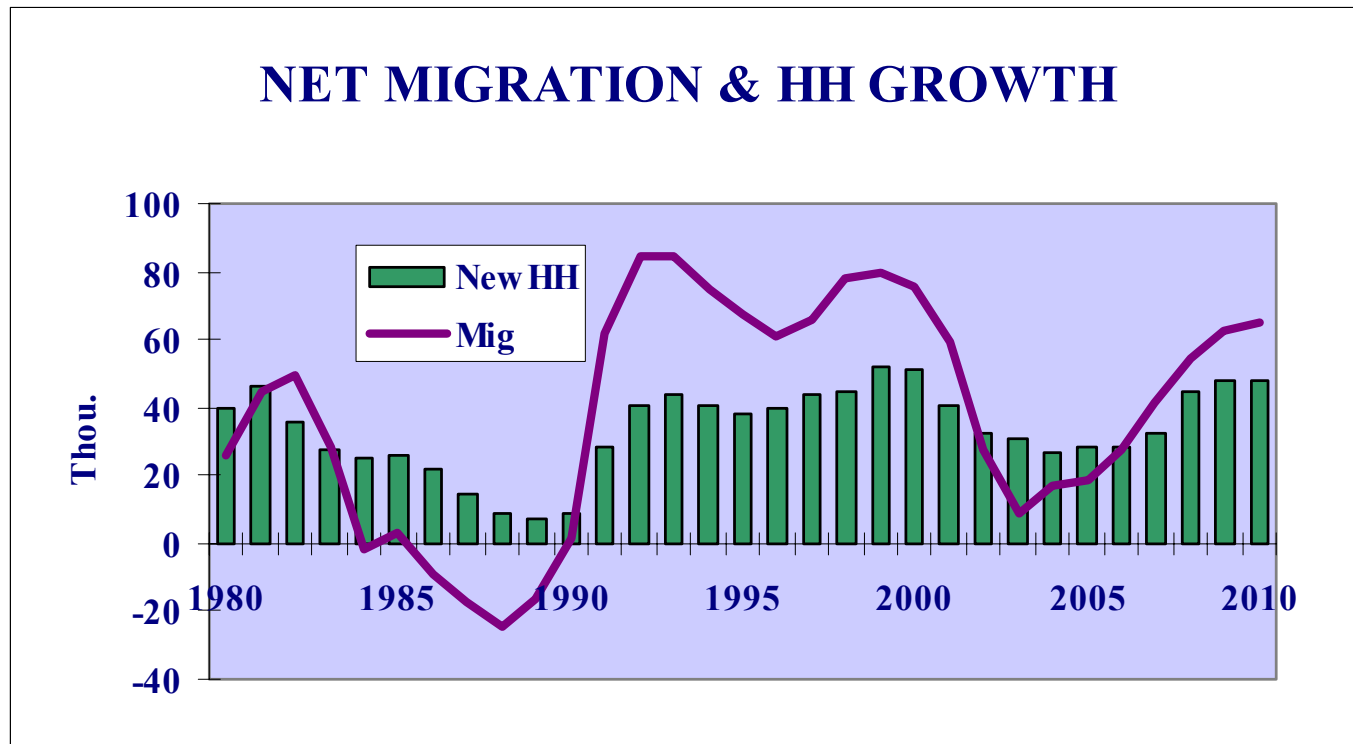
Most of drop in Colorado home building was in multi-unit structures



Colorado lost more than 25,000 construction jobs, although last few months saw some recovery.

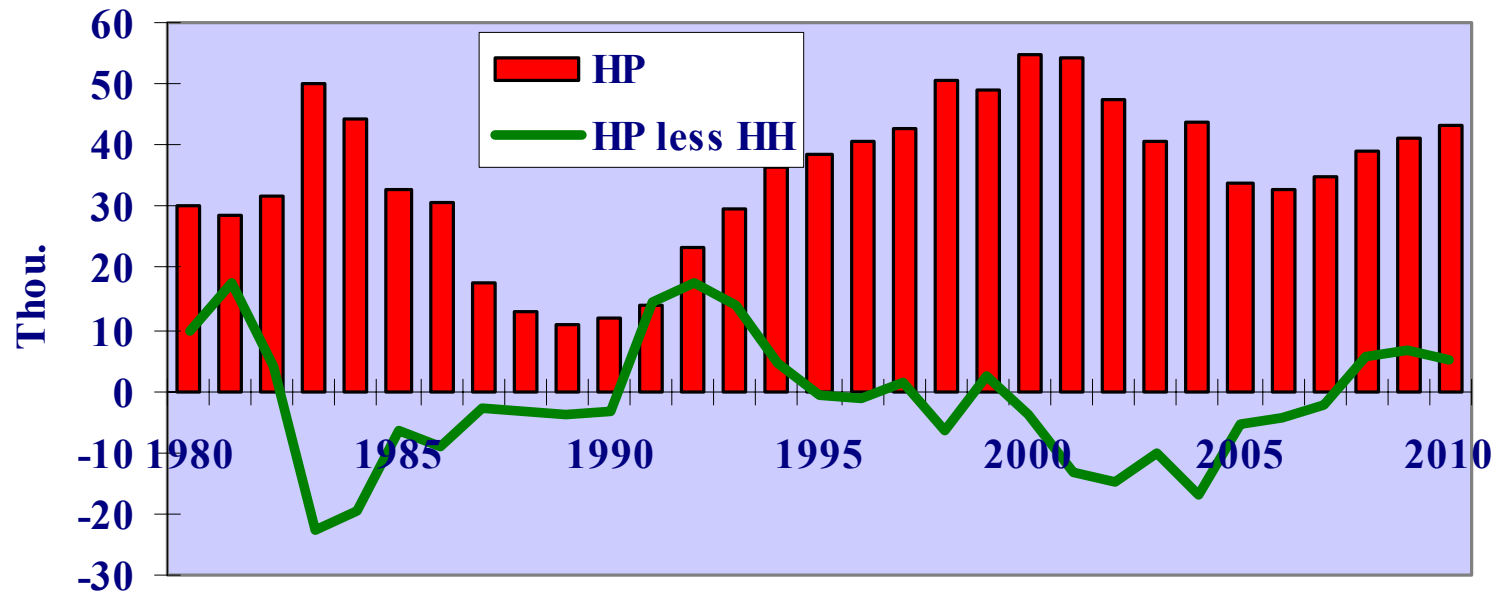


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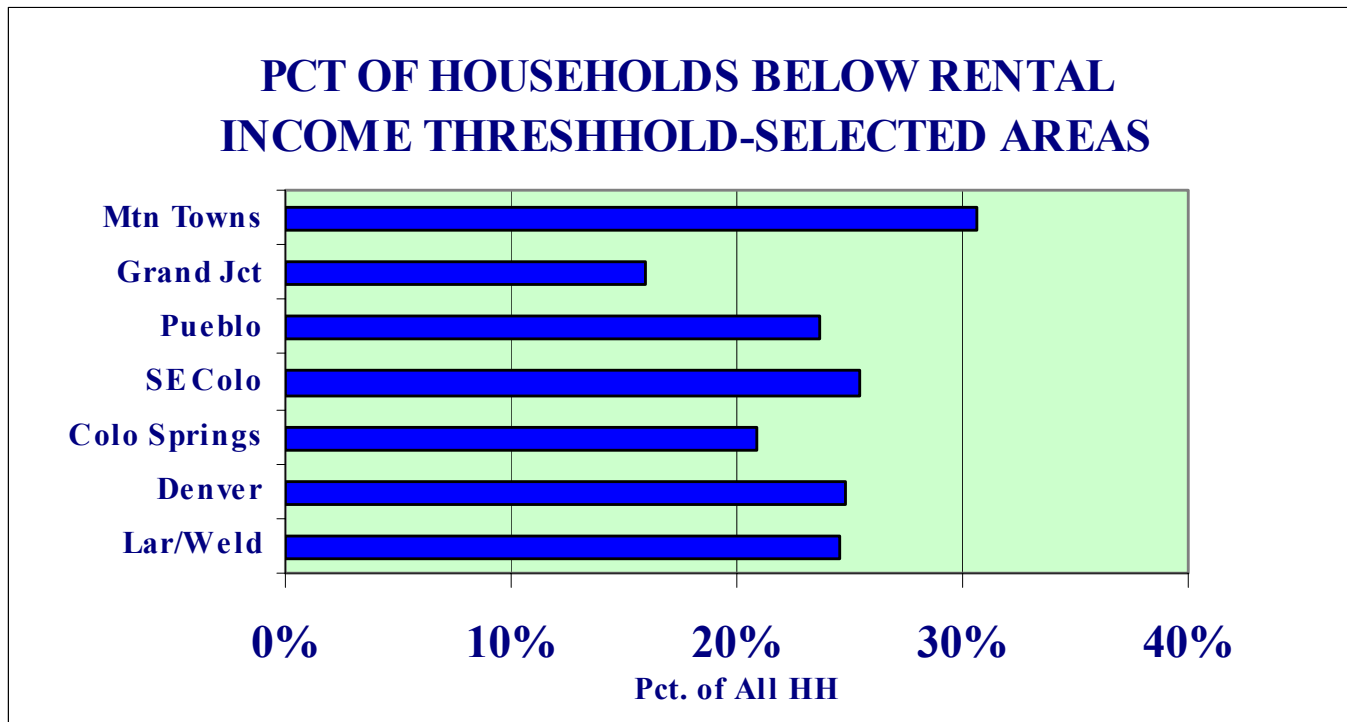


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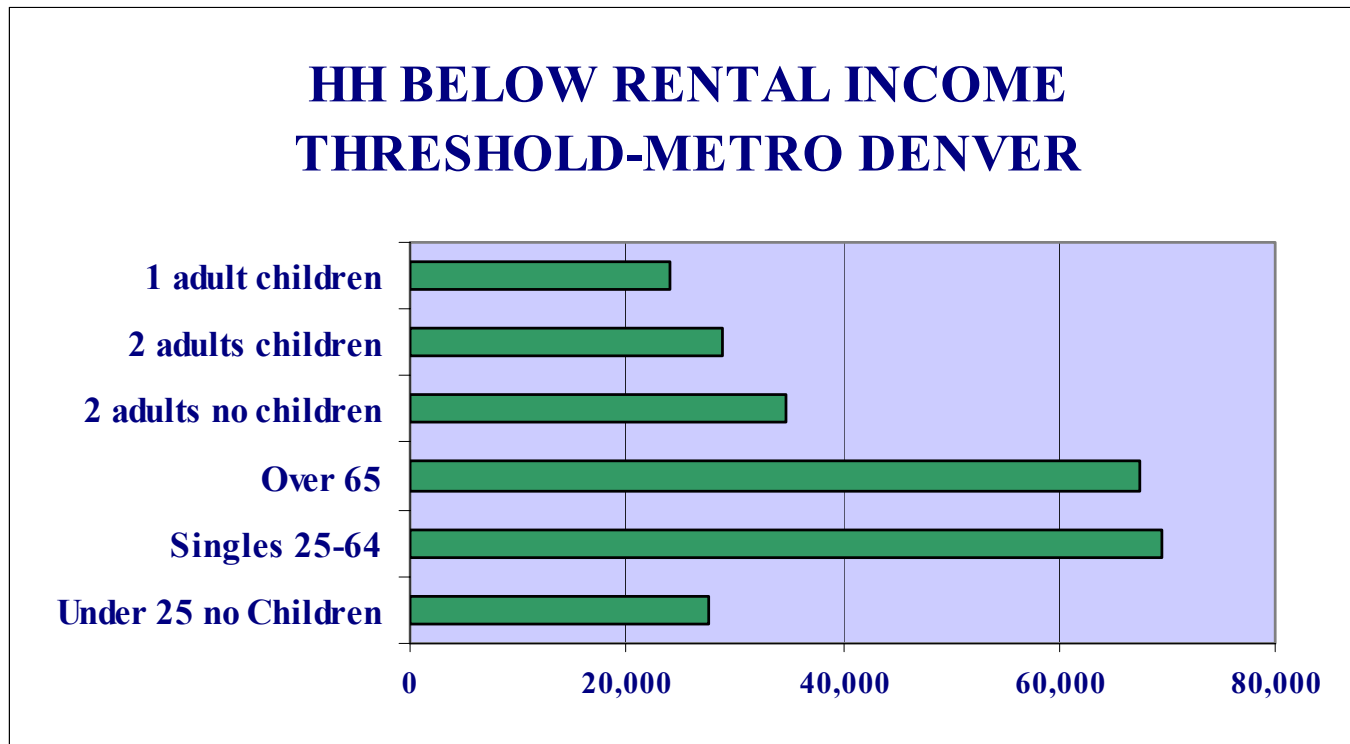
"EXCESS DEMAND" & HOME BUILDING



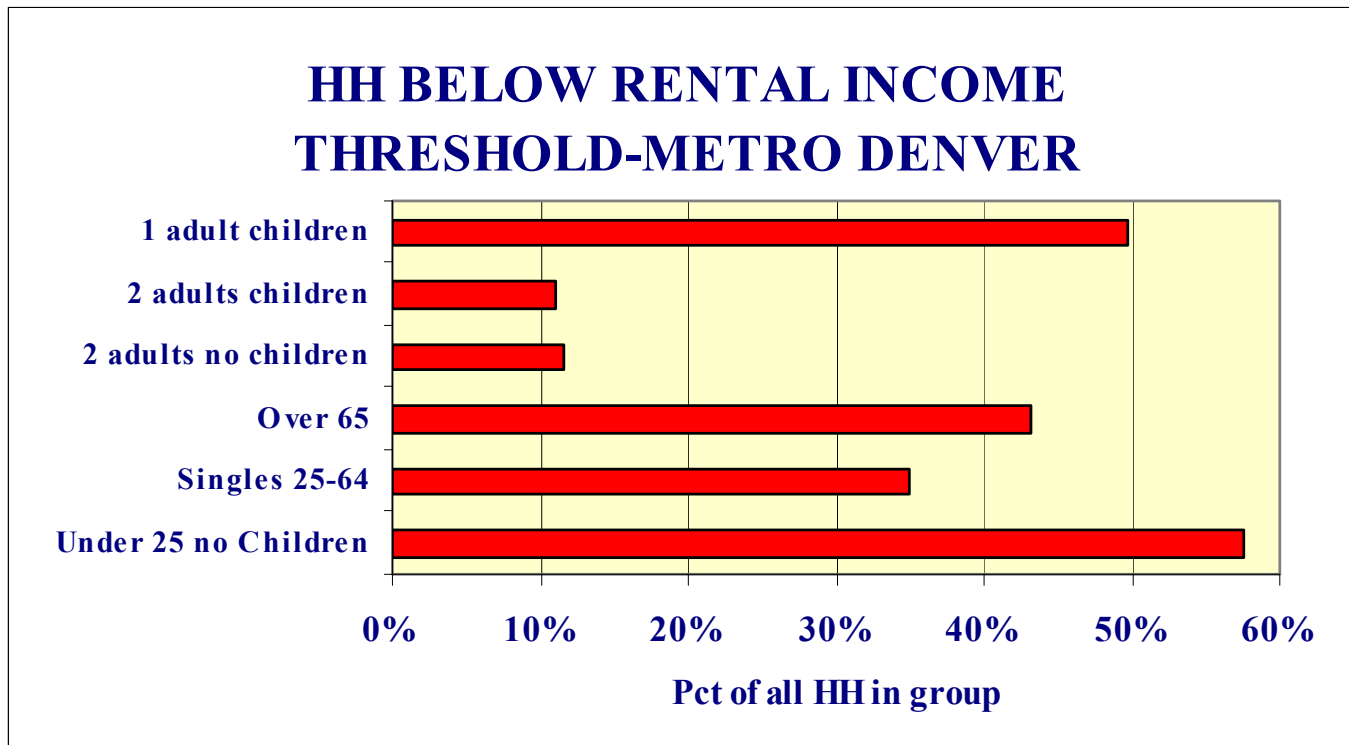
Housing affordability varies widely by region



Metro Denver's ¼ million low income households: most are young, old or childless



Half of single-parent households in Denver are below rental income threshold



Data Available from the Demography Office on . . . The Economy

www.dola.colorado.gov/demog

- Jobs and Labor Force by county, 1980 – 2002
- Jobs by Industry by county, 1990 – 2002
- Personal Income by Source by county, 1969 – 2002
- Economic Base Analyses, 2002
- Economic Forecasts
 - CBEF Short-Term Economic Outlook
 - Jobs Forecast by county and region, 1990 - 2030
 - Personal Income Forecast by county, 1990 - 2030
 - Forecasting Worksheets (by region; counties in progress)